

## FISCAL POLICY

To assure our citizens that expenditures of tax dollars will be for justifiable needs and be based on cost effectiveness and affordability, this Administration has used Harford County's Five Year Business Plan as the base from which our Fiscal Policy has evolved. The Plan's primary elements are:

**FINANCIAL PLANNING** - Our operating and capital budgets will be "**conservative**" providing for functions and expenses, included on the basis of real versus perceived need. Programs will have established Performance Measures to monitor their effectiveness and efficiency, and to avoid duplication of effort. Though we will continue to actively pursue Federal and State grants, we will purposely avoid dependence on outside funding. Fees will be made to closely reflect the true cost of providing the services for which they were imposed. We will continually monitor existing and potential on-going revenues.

**We will maintain an Unappropriated Fund Balance, not less than 5% of the Total General Fund Operating Budget**, to protect our high credit rating and to provide for emergencies, allocating excess Unappropriated Fund Balance amounts above the 5% to the next operating budget.

**STRATEGIC PLANNING** - We will utilize long-range revenue and expense projections, plus analysis of demographic and economic trends in our decision making and planning, to assure the County's future fiscal stability. Economic development efforts will aim to enlarge our tax base to avoid imposing new or higher taxes. To provide and maintain needed public facilities, **our Five Year Capital Improvement Program will be designed in a responsive and fiscally conservative manner**, while considering its impact on future operating budgets, and based on affordability and sound debt management

**DEBT MANAGEMENT** - The Fiscal 1998 Business Plan reaffirmed guidelines for funding the County's Capital Budget:

- o **To emphasize Pay-As-You-Go (Paygo) funding** - Throughout this Administration, we have consistently financed minor renovation and repair projects which have an asset life of less than 10 years, with current revenues as opposed to incurring long term debt

- o **To keep Harford's Net Bonded Debt level at no more than 2.3% of the Estimated Market Value of Assessable Property in the County** - Maryland State law actually limits the general obligation supported debt issued by charter counties to an amount equal to a total of 6% of the Assessable Base of Real Property and 15% of Personal Property in each County. While we have funded capital assets, of significant cost and which are long term in operational or economic value, with debt, so that their cost is shared by future as well as current users or beneficiaries of projects, our Net Bonded Debt as of June 30, 2003, equals 0.97% of the Estimated Valuation of Harford's Assessable Property.

- o **To keep the amount of funds the County spends annually on the principal and interest payments (debt service), on bonded debt, to less than 5% of the annual General Fund Budget** - These guidelines were not meant to be blindly adhered to, but to be re-examined and adapted to changes in the economy, where prudent, and to meet the needs of the citizens we serve. Additional demands for provision and maintenance of public facilities, higher construction costs, and increased labor costs due to State Wage legislation, have resulted in a ratio of debt service to the General Fund Budget of slightly more than 5% since Fiscal 2001. The Fiscal 2004 General Fund Budget decreases by almost \$4 million from Fiscal 2003 but the obligated debt service remains. This causes an even greater impact on this ratio, making it 7.2% for Fiscal 2004. This situation will more than likely extend into Fiscal 2005 and perhaps beyond. Therefore, this Administration has revised the Business Plan's goal. We will keep bonded debt and its resulting debt service to as small a portion of the General Fund Budget as is realistically possible, while not tied to a set ratio. We hold conservative, yet fluid and responsive, debt management to be fiscally prudent

## CREDIT RATING

Credit ratings are designations by investor services to give a relative indication of credit quality. When a government receives a higher credit rating, its bonds can be sold at a lower interest rate, resulting in less interest costs to that government. During the Harkins' Administration, Harford's rating was increased three years in a row, a remarkable achievement. These increases were based on: a growing business tax base, favorable debt ratios, sound financial operating and reporting, and conservative budgeting. On January 8, 2002, the County sold 20 year bonds totaling \$57,290,000 at a 4.27% interest rate, and Harford County's Bond Ratings were reaffirmed as follows: **Standard & Poor's AA; Fitch Ratings AA+; and Moody's Investors Service, Aa1.**

## GENERAL FUND REVENUE HIGHLIGHTS AND ASSUMPTIONS

**GENERAL FUND PROPERTY TAX REVENUES** - Properties in Maryland are assessed by the State on a triennial system to establish the value of a property for taxing purposes. Each \$100 of this value, multiplied by a County's tax rate determines the amount of taxes due.

**Harford County has not changed its Tax Rate since 1983:**

<b>\$2.34</b>	per \$100 of assessed value for all of Harford County
<b>\$0.39</b>	per \$100 of assessed value for properties outside the three towns
<b>\$2.73</b>	

**But the State did change two methods of assessing properties:**

1. On January 1, 2001, State law enacted to implement electric deregulation, changed the assessed value of machinery or equipment used to generate electricity for sale from 100% to 50%. Since FY 01, the impact on Harford County has been a (\$1.7 million) decrease in annual Property Tax receipts from public utilities. The County's Net Property Tax revenues slowed from an average 5.00% growth rate from FY 98 to FY 01, to 4.86% since FY 01.
2. Previously, Corporate and Personal Properties were taxed at 100% of their assessed value and Real Property was taxed at 40%. As of 2001, Maryland now assesses Real Property at 100% of its value. So as not to increase the amount of Real Property Taxes people were paying, the State worked with each local subdivision to adjust their Real Property Tax Rates. Harford County's resulting rate structure is now:

<b>Corporate &amp; Personal Property Tax Rate</b>	<b>Real Property Tax Rate</b>	
<b>\$2.34</b>	<b>\$0.936</b>	per \$100 of assessed value for all of Harford County
<b>\$0.39</b>	<b>\$0.156</b>	per \$100 of assessed value for properties outside the three towns
<b>\$2.73</b>	<b>\$1.092</b>	

Property Taxes represent the largest General Fund revenue source for the County. Net Property Tax revenues projected for FY 04 are \$146,352,705, an increase of \$7.3 million, or 5.28%, over projected FY 03 amounts, and should generate 48% of all General Fund receipts. Most of this increase is due to a growth in the County's assessable base, affirming this Administration's commitment to stable property tax rates and continued business development.

**GENERAL FUND INCOME TAX REVENUES** - Maryland allows its local sub-divisions to "Piggy Back" on the Income Taxes the State imposes. Each local determines their own Income Tax rate which is a percentage of the amount of tax individuals owe the State. Maryland collects all Income Taxes, then distributes to each local sub-division their share of the annual revenues. Although Income Taxes are imposed and collected on a calendar year basis, this distribution is done over a 21 month period, spreading Harford County's receipts over three fiscal years. For example:

Income Taxes on a salary earned from January 1, 2001 until December 31, 2001, are due to be paid to the State on April 15, 2002.

Harford County is sent our share in ten distributions, starting with estimated receipts in May 2001 through a final distribution in January 2003.

These are received during Fiscal Years 2001, 2002, and 2003.

If the State anticipates a large amount of refunds to taxpayers, it can hold back some of the locals' funds until later in the year. The State can allow taxpayers an extension on paying their taxes, meaning the locals receive their share even later than anticipated. The locals are also provided very limited information as to what type of income was taxed: a regular salary, a capital gain, a bonus, etc. All of these factors make it extremely difficult to project Income Tax revenues.

Harford County's second greatest source of General Fund revenues is our Income Tax, which averaged an annual growth rate of about 6.75% until we experienced a significant rate drop to 3.7% in FY 00. Based on this slower growth rate, we had predicted only a 3.4% growth for FY 01. To help recruit and retain highly qualified Teachers and Sheriff Deputies, by providing salary increases, the County raised the Income Tax rate beginning in calendar year 2001 from 2.55% to 3.06%. As we began to develop our FY 02 budget, an analysis of FY 01 receipts determined a much larger growth than anyone had anticipated. We, however, exercised caution and our FY 02 budget included only a 5.2% growth to our existing base, plus anticipated increased receipts resulting from the tax hike. This proved to be a wise move. As FY 02 progressed, we, in fact, realized only a 1.1% growth to this base amount.

We later determined that the FY 00 drop was due not only to a sluggish economy, but also to the State granting extensions to many taxpayers who realized large capital gains when they reduced their investments in the Stock Market. This resulted in Harford County not receiving FY 00 receipts until FY 01, disproportionately inflating our FY 01 revenues.

This experience led to an extremely cautious projection for FY 03's Income Tax receipts to grow 4.9%. As we were close to completing the County Executive's Proposed FY 04 Budget to send to the County Council on April 1st, the economy had worsened, and projections were showing FY 03's receipts would be below budgeted amounts. Remaining conservative, we have built our FY 04 budget on Income Tax revenues of \$119,577,373, a growth of only 0.014% or \$17,296 from FY 03's original budget.